



**All About Inverted Duty Structure under GST (including the impact of GST 2.0)**  
**(Practical FAQs)**



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**Introduction:**

Under the GST regime, tax is levied on every stage of supply, but the credit of tax paid on inputs and input services is available subject to the fulfilment of conditions, and restrictions, provided under Chapter V of the CGST Act 2017, to avoid cascading and effectively tax the value addition. Value addition is intended to achieve fiscal neutrality and to obviate a cascading effect of taxation which traditional tax regimes were liable to perpetuate. Therefore, the tax collected by the exchequer would be on the final value of the goods and/or services consumed by the ultimate consumer.

Nevertheless, in some cases, the rate of GST on inputs are higher than the rate of GST on outward supplies resulting in accumulation of input tax credit, which would indirectly add cost to the working capital cycle. This situation is called an Inverted Duty Structure (IDS) though such name is not anywhere referred in the legislation.

In the erstwhile regime, there was no concept of IDS refund i.e. refund for such credit accumulation didn't exist. However, in GST, to neutralize this imbalance, Section 54(3) of the CGST Act, 2017, read with Rule 89(5) of the CGST Rules, 2017, addresses the

concern and allows taxpayers to claim a refund of the accumulated Input Tax Credit (ITC) on account of such inversion subject to certain conditions.

With the introduction of GST 2.0 and the Government's rate rationalisation efforts, the idea is to reduce the scenarios of inverted duty structure by aligning input and output tax rates for certain sectors. Yet, rate reduction on certain finished goods has also created fresh cases of inversion, meaning those suppliers must now apply for IDS refunds.

This FAQ based note seeks to clarify the legal, procedural, and practical aspects of Inverted Duty Structure.

**Q1. What is meant by an “Inverted Duty Structure” under GST?**

**A:** An *inverted duty structure* is a scenario, when the rate of tax on inputs is higher than the rate on the final product or output service.

For example, if raw materials are taxed at 18% and the finished product is taxed at 5%, the situation is referred as inverted duty structure.

**Q2. What is the legal provision governing IDS refunds?**

**A:** IDS refunds are governed by:

- Section 54(3) of the CGST Act, 2017, which **permits refund of unutilised ITC** where the credit accumulation is due to inverted tax structure; and
- Rule 89(5) of the CGST Rules, 2017, which prescribes the formula for computing the refund.

**Q3. Who can claim a refund for IDS under GST?**

**A:** Taxpayers whose inputs attract higher GST than their output supplies, but **not those making nil-rated or exempt supplies** or those notified by the government as ineligible, can claim refunds under Section 54(3) and Rule 89.

**Q4. Can a taxpayer claim refund of ITC on both inputs and input services under IDS?**

**A:** Though the section 54 of the CGST Act 2017 does not discriminate between inputs, input services and capital goods among the input tax credit, the rule 89(5) of the CGST Rules 2017 specifically confine the refund eligibility only to inputs.

The said analogy is confirmed by Honourable Supreme Court in the case of Union of India vs VKC Footsteps India Pvt. Ltd.<sup>1</sup> wherein the court upheld the validity of dissection provided in the rule between inputs and input services, so long as there is no transgression of the fundamental principle underlying the doctrine of classification.

***Q5. Can businesses claim IDS refunds after a GST rate reduction on finished goods?***

**A:** Yes, businesses can claim Inverted Duty Structure (IDS) refunds if a rate reduction on finished goods leads to a situation where the input tax rate becomes higher than the output tax rate.

For example, suppose a product earlier taxed at **18%** is reduced to **5%** under a GST rate rationalisation notification, while inputs continue to be taxed at **18%**. This creates an **inverted duty structure** from that date onward.

***Q6. Where a trader purchased goods before the rate rationalisation (purchased at 18% rate) and sold goods after the rate rationalisation (sold at 5%) is eligible for IDS Refund***

**A:** In terms of Circular 135/05/2020-GST and 173/05/2020-GST, it has been clarified by the CBIC that the input and output being the same in such cases, though attracting different tax rates at different points in time, such scenario is not covered under the ambit of Inverted Duty Structure. However, if such goods are supplied at lower rate of tax due to some concessional notification, then the said scenario shall be considered as Inverted Duty Structure. Recently in the context of rate rationalisation vide GST 2.0 too, Government has concurred with the above clarification via Q.no.10 of the FAQ

In our view, we would humbly distinguish from the above clarification due to the following reasons:

- i. The law does not provide any discrimination between the supply of same goods or different goods i.e., manufacturers/service providers and traders.

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<sup>1</sup> 2021 (52) GSTL 513 (S.C)

As long as the rate of tax of inputs are higher than the rate of tax of output supplies, it is covered as inverted duty structure.

- ii. Various High Courts concurred with this view by reading down the said circular and allowed the refund even though the inputs and output are same. Reference High Court rulings are as follows: The Gauhati High Court in the case of BMG Informatics Pvt Ltd<sup>2</sup>, Rajasthan High court in the case of Baker Hughes Asia Pacific Limited<sup>3</sup>, Delhi High Court<sup>4</sup> in the case of Indian Oil Corporation Limited, Kerala High Court in the case of Malabar Fuel Corporation<sup>5</sup>.
- iii. It is settled principle of law that the circular can only supplement the law and not supplant the law. Circulars might mitigate rigours of law by granting administrative relief beyond relevant provisions of the statute, however, Central Government is not empowered to withdraw the benefits or impose stricter conditions than postulated by the law<sup>6</sup>.

***Q7. Whether refund under IDS category available if the input and output goods are same and accumulation of credit happened due to minor inputs like packing materials, consumables, etc.***

**A:** Yes, IDS refund can be claimed as long as ITC accumulation happens to inputs rate being higher than the output rate. The same was confirmed by Karnataka High court in the case of M/s. Indian Oil Corporation Limited<sup>7</sup>, Madras High Court in the case of Eveready Spinning Mills P Ltd<sup>8</sup>.

For instance, in case of supply of Kerosene Oil via Public Distribution System is taxed at 5%, whereas the inward supplies for making such outward supplies are taxed at higher rate of tax and equal rate of tax in some cases like – Procurement of Kerosene – 5%/18%, Blue Dye – 18 , Repairs & Maintenance Materials – 18%/28%, Printing & Stationery items – 18%.

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<sup>2</sup> WP(C)/3878/2021, WP(C)/3675/2021, WP(C)/3880/2021, WP(C)/4120/2021

<sup>3</sup> D.B. Civil Writ Petition No. 5714/2021

<sup>4</sup> 2024 (81) G.S.T.L. 252 (Del.)

<sup>5</sup> 2024 (86) G.S.T.L. 207 (Ker.)

<sup>6</sup> Pitambara Books Pvt. Ltd W.P.(C) 627/2020

<sup>7</sup> WP No. 14414 of 2024

<sup>8</sup> W.P. (MD) 10033 of 2024

In such cases, even though the major input Kerosene is taxed at 5%, since other inputs for making the output supplies are taxed at higher rate of tax, it is covered within the ambit of inverted duty structure.

***Q8. What is the time limit for filing refund application under IDS Category?***

**A:** As per Section 54(1) of the CGST Act, 2017, the time limit for filing a refund application under the Inverted Duty Structure (IDS) category is two years from the “relevant date.” For IDS refunds, the “relevant date” is defined in Explanation (2) (e) to Section 54, The due date for furnishing of return under Section 39 for the period in which such claim for refund arises.

If you are filing a refund for, say, for the month June 2024, the due date for filing GSTR-3B for June 2024 (normally 20<sup>th</sup> July 2024) will be the “relevant date.” Hence, the refund application must be filed within two years from 20th July 2024, i.e., by 19th July 2026.

***Q9. How many days it generally takes to process the refund***

**A:** As per the existing law the refund should be granted within 60 days from the date of receipt of application complete in all aspects. [Section 54(7) of the CGST Act 2017].

Nevertheless, recently vide 56th GST council, the provisional basis refund i.e., granting 90% of the applied refund within 7 days from the date of issuance of acknowledgement for the refund application filed via GST RFD-02. The said proposal is yet to be notified. The same is expected to be notified vide the upcoming Finance Budget 2026.

***Q10. Will the service providers can be able to claim refund under IDS?***

**A:** IDS refund arises if the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on Output supplies (other than nil rated or fully exempt supplies). Output supplies include supply of services in addition to supply of goods. Service providers are not barred from claiming IDS refunds merely because their outputs are services. Service providers could claim refund under IDS Category if credit accumulated due to higher rate on inputs.

For example, if a contractor providing outward service which is chargeable at 5% outward tax. However, ITC accumulated due to purchase of steel and cement (18% or 28% as applicable), the service provider can claim refund under IDS Category if there is no specific restriction for the said service.

**Q11. What are the goods or services on which IDS refund is restricted**

**A:**

<b>Sl.no</b>	<b>Description of Goods/Services which are restricted from IDS refund</b>	<b>Relevant Notifications</b>
1	<ul style="list-style-type: none"> <li>• Edible Oils falling under chapter 15,</li> <li>• Coal, lignite, peat falling under chapter 27,</li> <li>• Specific fabrics falling under chapter 50, 51, 52, 53, 54, 55, 56, 58 &amp; 60,</li> <li>• Rail locomotives, coaches, wagons etc. falling under chapter 86.</li> </ul>	Notification No.05/2017, 20/2018, 9/2022 - Central Tax (Rate)
2	Construction of a complex, building or a part thereof, intended for sale to a buyer, wholly or partly, where the amount charged from the recipient of service includes the value of land or undivided share of land, as the case may be, except where the entire consideration has been received after issuance of completion certificate, where required, by the competent authority or after its first occupation, whichever is earlier	Notification No. 15/2017, 15/2023 - Central Tax (Rate)

**Q12. When a product added to IDS restriction category, from when the IDS refund will be restricted.**

**A:** IDS Refund will be eligible for the supplies made before the restriction comes into existence even though the refund application filed after the restriction introduced.

In the case of Shree Proteins Private Limited<sup>9</sup>, Gujarat High Court affirmed that the refund of accumulated ITC under Inverted Duty Structure can be restricted only on the input tax credit only after the restriction imposed via notification under section 54(3)(ii) of the CGST Act 2017. Such restriction shall not apply for the refund application where the refund is claimed on the accumulated input tax credit prior to such restriction.

***Q13. Whether the supplier making supplies to merchant exporters @ 0.1% eligible for IDS refunds***

**A:** The supplier who supplies goods at the concessional rate is also eligible for refund on account of inverted tax structure as per the provisions of clause (ii) of the first proviso to sub-section (3) of section 54 of the CGST Act. This was clarified through Para No. 59 of Circular 125/44/2019 – GST.

***Q14. Whether IDS refund can be claimed by the recipient if the supplier charges higher rate erroneously instead of lower rate applicable***

**A:** In terms of Section 54(3)(ii) of the GST Act, if the rate of tax on input is higher than the rate of tax on output, the person can certainly claim the refund. If the duty paid on input is 18% though it is chargeable at 5%, the recipient is entitled for refund in terms of the provision of the Section 54(3)(ii) of the GST Act. This was decided in favour of the taxpayer by Madras High Court in the case of M/s Suzlon Energy Limited<sup>10</sup>.

***Q15. Can IDS refund be denied if only one input is taxed higher than the output?***

**A:** No. Courts clarify that if any input in the supply chain attracts higher GST than the output, refund eligibility arises, not just for the principal input. Check all purchased inputs for inversion.

***Q16. Can a supplier claim refund under both the categories under Export as well as IDS for the same goods***

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<sup>9</sup> 2023 (78) G.S.T.L. 87 (Guj.)

<sup>10</sup> W.P.Nos.10852 & 10855 of 2021 and W.M.P.Nos.10772 & 10773 of 2021

**A:** Yes, A supplier can claim refund under both the categories as long as the conditions specified for each category satisfied. The same was confirmed by the Madras High Court in the case of VSM Weavess India (P.) Ltd<sup>11</sup>.

***Q17. What are common examples of industries facing inverted duty structure?***

**A:** Though the recent rate rationalisation reform implemented by the Government focussed on reducing the inversion, there are still sectors which are affected by the inverted duty structure. Some examples are Textile & Apparel Sector, Electricals & Electronics, Packaging and Printing,

***Q18. If the credit accumulation happens due to the subsidy given by the State Government / Central Government, whether refund under IDS Category can be claimed?***

**A:** The law provides the refund entitlement under inverted duty structure when the rate of tax on inputs is higher than the rate of tax on output supplies. The said scenario does not cover the accumulation created due to abatement in the valuation i.e., subsidy given by the Government. The same analogy is affirmed by the Hon'ble SC in the case of VKC Footsteps<sup>12</sup>.

The fertilizers industry faces this issue practically even after the GST rate rationalisation where the rate of tax of inputs was reduced. The issue is under the purview of GST council for its consideration. Nevertheless, if even any one of the input's rate of tax is higher than the output tax, the transaction would be covered within the ambit of inverted duty structure. Refer Q.7 above.

***Q19. If the inputs which are common chargeable at various rates i.e. 5%, 12%, 18% and 28% and the outward supplies also chargeable at 5%, 12%, 18% and 28%, Whether IDS refund can be claimed?***

**A:** If the credit accumulation happens in such scenario, certainly refund under IDS category can be claimed. However, for the purpose of inverted turnover, the turnover of 5%, 12% and 18% put together can be considered. The same was

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<sup>11</sup> 2024 (82) G.S.T.L. 402 (Mad.)

<sup>12</sup> 2021 (52) G.S.T.L. 513 (S.C.)

confirmed in the case of Nahar Industrial Enterprises Limited Vs Union of India by the Honourable Rajasthan High Court.

***Q20. How is the refund amount calculated under Rule 89(5)?***

**A:** Rule 89(5) lays out a formula for the maximum refund, considering eligible ITC from input goods, output GST liability, and proportionate adjustments. The formula was updated in July 2022.

The eligible refund amount =

$(\text{Turnover of inverted rated supply} \times \text{Net ITC} \div \text{Adjusted total turnover}) - \text{Tax payable on such inverted rated supply} * \text{Net ITC} \div \text{ITC availed on inputs and input services}.$

Here, Net ITC refers only to the ITC on input goods, not services or capital goods.

***Q21. Are the rules for IDS refund applicable on imports as well?***

**A:** Yes. IGST paid on imported goods follows the revised GST rate schedule just like domestic goods from the date of change.

***Q22. How to apply for an IDS refund?***

**A:** Refund applications are filed electronically in Form GST RFD-01 through the GST portal within two years from the relevant date.

***Q23. What documents are required for filing an IDS refund claim?***

**A:** Typically:

- Statement 1A (auto-populated from GSTR-1 and GSTR-3B),
- Purchase invoices,
- Calculation sheet as per Rule 89(5),
- Declaration under Rule 89(2),
- Undertaking for non-passing of tax incidence (unjust enrichment).
- CA Certificate

***Q24. Can IDS refund be claimed if the output supply is exempt or nil-rated?***

**A:** No. Refund of unutilised ITC is **not allowed** if:

- The output supply is **nil-rated or exempt**, or

- The taxpayer has availed **duty drawback** or **refund of IGST paid on exports** for the same goods.

**Q25. Can a taxpayer carry forward ITC if rate rationalisation removes inversion?**

**A:** Yes. If inversion is removed (say both input and output now taxed at 5%), the refund claim for past periods remains valid, but going forward, ITC can only be utilised not refunded.

**Q26. What did the Supreme Court hold in the VKC Footsteps India Pvt. Ltd. case?**

**A:** The Court upheld the validity of **Rule 89(5)**, stating that:

- Refund is a statutory right arising from the Statute.
- Inverted Duty Structure is confined only to refund of accumulated ITC on account of *input goods*;
- Denial of refund on *input services* is not unconstitutional;
- Any policy change must be done through legislative amendment, not judicial direction.

**Q27. Will GST 2.0 completely remove the need for IDS refunds?**

**A:** Not entirely. The government's aim is to *minimise* IDS refunds by aligning rates, but as long as **rate differentials exist** across the value chain, **IDS refunds will continue** for some sectors and few sectors are newly added due to rate reduction on finished products.

**Q28. What is the future outlook for IDS refunds under GST 2.0?**

**A:** Rate rationalisation may:

- **Eliminate IDS refunds** for sectors where inputs and outputs are aligned, but **Create fresh inversions** where only outputs are rate-reduced. Hence, businesses must monitor rate notifications carefully and re-evaluate refund eligibility after each rate change

**Conclusion**

Inverted Duty Structure (IDS) refund under GST is a vital relief mechanism designed to address the cash flow challenges faced by businesses when the GST rate on inputs



exceeds that on output supplies. This refund process ensures that genuine accumulation of input tax credit due to inverted rates is monetized, thus supporting business continuity.

While GST 2.0 aims to rationalize rates and reduce the incidence of IDS, certain rate reductions may still result in inversion, requiring affected taxpayers to understand and claim IDS refunds correctly.

This FAQ collection equips taxpayers with practical insights into eligibility, computation, documentation, and procedural requirements for IDS refunds, helping ensure compliance and timely recovery. Given the complexity of rate changes and legal developments, staying updated on relevant circulars, notifications, and court decisions is essential for effective management of inverted duty structure refunds under GST.

[For feedback or queries, please mail us at [arjun@hnaindia.com](mailto:arjun@hnaindia.com) or [rajeshmaddi@hnaindia.com](mailto:rajeshmaddi@hnaindia.com) ]

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